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SUBJECT: VIETNAM AIRLINES WILL EQUITISE PARTLY IN 2009

REF: HANOI 1974

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¶1. (SBU) Summary: Vietnam Airlines' (VNA) new CEO Pham Ngoc Minh told the Ambassador that VNA will partly equitise in 2009 and revealed VNA's ambitious plan to become one of the preeminent air carriers in Southeast Asia. The Ambassador thanked Minh for Vietnam's recent purchase of Boeing aircraft and asked Minh to consider equipping the new jets with GE Aviation's GENx jet engine. The Ambassador urged Minh to push Vietnam's Civil Aviation Administration to procure funding for the final two phases of an aviation safety upgrade project that would allow the carrier to begin direct service to the United States. Minh asked the Ambassador to press the GVN's Ministry of Transport to ratify the Cape Town Convention, a risk mitigation treaty that would reduce the cost of aircraft financing for Vietnam's air carriers. He also asked the Ambassador to help smooth the way for Vietnamese pilots and mechanics to obtain visas and enroll in aviation training schools in the United States. End Summary.

¶2. (SBU) The Ambassador met with newly appointed CEO of Vietnam Airlines Pham Ngoc Minh on January 7 to promote Boeing aircraft and advocate for GE Aviation's GENx jet engine. Minh takes over as CEO from Nguyen Sy Hung, who remains the airlines' chair. Minh previously served as VNA's influential vice-president and is also the chair of the newly formed Vietnam Aircraft Leasing Company (VALC), and is one of the architects in its formation.

VIETNAM AIRLINES TO EQUITISE  
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¶3. (SBU) Minh told the Ambassador that the state-owned airline would partly equitise in 2009. He said VNA would issue a request for proposal (RFP) in 2008 to hire a financial consultant and would issue an IPO or choose a strategic partner early in 2009. Minh said it was "too soon to say" which path the carrier would choose, but noted that the right investor could help VNA realize its ambitious plan to become one of the preeminent air carriers in Southeast Asia along with Singapore Airlines and Thai Airways. Minh noted that the United States is home to many of the world's top financial consulting firms and mentioned Morgan Stanley, Citi, JP Morgan, and Merrill Lynch as possible selections. Minh told the Ambassador that VNA had receipts of \$1.4 billion and carried 8 million passengers in ¶2007.

THANKS FOR BUYING BOEING  
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¶4. (SBU) On November 16, 2007, Boeing and VNA signed an agreement to

purchase an additional four 787-8 "Dreamliner" aircraft. VALC purchased 8 more, which it will lease to VNA (Reftel). VNA has now procured twenty-one 787s (sixteen purchased and 5 leased) and has ten Boeing 777 aircraft (5 owned and 6 leased). Anticipating larger tourist and business traffic to Vietnam, VNA has said it will need at least twenty-eight 787s by 2020. The Ambassador thanked Minh for the purchase and said he hoped the airline and Boeing would have a long and productive relationship.

#### PROMOTING THE GENx

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15. (SBU) GE Aviation (a U.S. company) is currently in a competition with Rolls Royce (owned by BMW) to supply jet engines to VNA's Boeing 787s. GE produces the GENx, its new fuel-efficient composite engine, while Rolls Royce offers the Trent 1000 for the Boeing 787 and the Trent XWB for the Airbus A350. The Ambassador advocated the merits of the GENx, citing the engine's lower fuel burn and increased reliability. In response, Minh emphasized that the engine procurement process would be "fair and transparent," a clear reference to the 2004 corruption scandal that shook the airline. Under former CEO Nguyen Xuan Hien, VNA officials allegedly disregarded a GVN directive instructing the airline to equip VNA's four 777 airplanes with long-range GE90 jet engines. Instead, VNA chose a cheaper, medium-range Pratt & Whitney engine, which made the jets unsuitable for many of the airlines' intended international routes. Minh told the Ambassador that the airline is now evaluating the GE and Rolls Royce bids and hopes to issue a decision by early April. He said the chairs of VNA and VALC would study the proposals and make a formal recommendation to the Prime Minister. In addition, Minh said he hoped that Vietnam would be a destination for a jet engine or spare parts maintenance or production facility. He stressed that Prime Minister Dung is particularly keen on this idea, calling it "critical" if Vietnam is to procure the GENx engine. (Note: The Chair of VNA, Nguyen Sy Hung, also made a point about wanting to establish aviation maintenance facilities in Vietnam in a recent meeting with the Ambassador. End note.) The Ambassador also

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discussed GE Money and GE Energy's current and future investment plans in Vietnam.

#### DELAYED FLIGHT

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16. (SBU) On August 6, VNA filed an application with the U.S. Department of Transportation for a foreign air carrier permit. The filing states that VNA intends to begin commercial service to the United States (HCMC-Osaka-Los Angeles) starting on October 28, 2008. First, however, the Civil Aviation Administration of Vietnam (CAAV) must upgrade its safety oversight capability to meet International Civil Aviation Organization (ICAO) standards. CAAV has completed the first phase of a \$1.4 million project funded by the U.S. Trade and Development Agency (TDA) to raise its safety standards to Category 1, which would allow Vietnamese air carriers to fly to the United States.

17. (SBU) TDA has asked CAAV to contribute a nominal \$50,000 sum toward the cost of the remaining two phases. While CAAV has acknowledged the request, it has yet to allocate the money. As a result, the project is now significantly behind schedule, possibly delaying VNA's inaugural flight to the United States by six months or more. Moreover, VNA will likely need to pick up passengers in Osaka to ensure profitability on the route, which means the GVN will need to negotiate "fifth freedom" passenger rights with Japan. The Ambassador urged Minh to press CAAV to procure the funding, saying the Embassy would work with Vietnam and the USTDA to facilitate timely completion of the project.

#### CAPE TOWN CONVENTION

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18. (SBU) Minh asked the Ambassador to press Vietnam's Ministry of Transport (MOT) and other relevant GVN ministries to ratify the Cape Town Convention, a risk mitigation agreement that would reduce financing costs on future aircraft deliveries to Vietnam's air

carriers. Minh expressed frustration over the Vietnamese Government's inaction on the treaty, complaining that VNA and VALC had to pay \$24 million in 787 aircraft deposits as a result. (Note: According to Embassy contacts, the treaty does not require ratification by Vietnam's National Assembly. Rather, President Nguyen Minh Triet will authorize the agreement once it reaches his desk from the MOT. End note.)

New airport  
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¶9. (SBU) Minh informed the Ambassador that the GVN would build a second international airport in southern Vietnam to supplant Ho Chi Minh City's congested Ton Son Nhat International Airport. He estimated that the new Long Thanh International Airport, 40 kilometers northeast of Ho Chi Minh City, would open in 5-8 years. Finally, Minh asked the Ambassador to help smooth the way for Vietnamese pilots and mechanics to obtain visas and enroll in aviation training schools in the United States.

Follow-up  
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¶10. (SBU) Embassy is seeking an appointment for the Ambassador to meet with Minister of Transport Ho Nghia Dung in order to discuss unresolved transportation issues, including the CAAV-TDA safety upgrade, the Cape Town Convention, and negotiation of a U.S.-Vietnam Open Skies Treaty.

MICHALAK